

**REPORT OF THE AUDIT OF THE  
NELSON COUNTY  
SHERIFF'S SETTLEMENT - 2002 TAXES**

**APRIL 21, 2003**



**EDWARD B. HATCHETT, JR.**  
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**EXECUTIVE SUMMARY**

**AUDIT EXAMINATION OF THE  
NELSON COUNTY  
SHERIFF'S SETTLEMENT - 2002 TAXES**

**April 21, 2003**

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2002 Taxes for Nelson County Sheriff as of April 21, 2003. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

**Financial Condition:**

The Sheriff collected taxes of \$12,231,718 for the districts for 2002 taxes, retaining commissions of \$397,931 to operate the Sheriff's office. The Sheriff distributed taxes of \$11,785,657 to the districts for 2002 Taxes. Taxes of \$68 are due to the districts from the Sheriff and refunds of \$1,724 are due to the Sheriff from the taxing districts.

**Report Comment**

- The Sheriff Should Have Required Depository Institutions To Pledge Or Provide Additional Collateral Of \$93,086 To Protect Deposits



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**EDWARD B. HATCHETT, JR.**  
**AUDITOR OF PUBLIC ACCOUNTS**

To the People of Kentucky

Honorable Paul E. Patton, Governor  
Gordon C. Duke, Secretary  
Finance and Administration Cabinet  
Dana Mayton, Secretary, Revenue Cabinet  
Honorable Dean Watts, Nelson County Judge/Executive  
Honorable Mike Newton, Nelson County Sheriff  
Members of the Nelson County Fiscal Court

Independent Auditor's Report

We have audited the Nelson County Sheriff's Settlement - 2002 Taxes as of April 21, 2003. This tax settlement is the responsibility of the Nelson County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Nelson County Sheriff's taxes charged, credited, and paid as of April 21, 2003, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated July 29, 2003, on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.



To the People of Kentucky  
Honorable Paul E. Patton, Governor  
Gordon C. Duke, Secretary  
Finance and Administration Cabinet  
Dana Mayton, Secretary, Revenue Cabinet  
Honorable Dean Watts, Nelson County Judge/Executive  
Honorable Mike Newton, Nelson County Sheriff  
Members of the Nelson County Fiscal Court

Based on the results of our audit, we present the accompanying comment and recommendation, included herein, which discusses the following report comment:

- The Sheriff Should Have Required Depository Institutions To Pledge Or Provide Additional Collateral Of \$93,086 To Protect Deposits

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a long horizontal flourish extending to the right.

Edward B. Hatchett, Jr.  
Auditor of Public Accounts

Audit fieldwork completed -  
July 29, 2003



NELSON COUNTY  
MIKE NEWTON, COUNTY SHERIFF  
SHERIFF'S SETTLEMENT - 2002 TAXES

April 21, 2003

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 1,873,311	\$ 821,682	\$ 4,665,223	\$ 1,848,884
Tangible Personal Property	146,955	52,563	165,265	597,987
Intangible Personal Property				305,708
Fire Protection	686			
Taxes Increased Through				
Erroneous Assessments	1,996	823	4,857	2,353
Franchise Corporation Taxes	98,537	36,106	201,102	
Distilled Spirits Taxes	503,083	180,019	1,021,864	
Supplemental Bills	4,878	1,673	2,719	4,862
Additional Billings	1,799	800	4,391	1,992
Limestone, Sand, and Mineral Reserves	640	252	2,423	631
Bank Franchise Taxes	94,980			
Penalties	12,311	5,377	30,098	12,910
Adjusted to Sheriff's Receipt	2,353	1,220	9	2,342
Gross Chargeable to Sheriff	<u>\$ 2,741,529</u>	<u>\$ 1,100,515</u>	<u>\$ 6,097,951</u>	<u>\$ 2,777,669</u>
<u>Credits</u>				
Exonerations	\$ 14,693	\$ 6,757	\$ 46,122	\$ 15,759
Discounts	44,499	17,565	96,752	46,420
Delinquents:				
Real Estate	28,707	13,153	87,267	28,285
Tangible Personal Property	2,697	965	6,401	6,478
Intangible Personal Property				217
Uncollected Franchise Corporation Taxes	6,712	2,189	14,308	
Total Credits	<u>\$ 97,308</u>	<u>\$ 40,629</u>	<u>\$ 250,850</u>	<u>\$ 97,159</u>
Taxes Collected	\$ 2,644,221	\$ 1,059,886	\$ 5,847,101	\$ 2,680,510
Less: Commissions *	112,667	42,419	128,636	114,209
Taxes Due	\$ 2,531,554	\$ 1,017,467	\$ 5,718,465	\$ 2,566,301
Taxes Paid	2,514,708	1,012,250	5,713,956	2,544,743
Refunds (Current and Prior Year)	16,808	5,201	6,219	21,558
Due Districts or (Refunds Due Sheriff)		**		
as of Completion of Fieldwork	<u>\$ 38</u>	<u>\$ 16</u>	<u>\$ (1,710)</u>	<u>\$ 0</u>

\* and \*\* See Page 4

The accompanying notes are an integral part of this financial statement.

NELSON COUNTY  
 MIKE NEWTON, COUNTY SHERIFF  
 SHERIFF'S SETTLEMENT - 2002 TAXES  
 April 21, 2003  
 (Continued)

\* Commissions:

10% on	\$	10,000
4.25% on	\$	6,293,806
2.2% on	\$	5,847,101
1% on	\$	80,811

\*\* Special Taxing Districts:

Library District	\$	(14)
Soil District		1
Northeast Nelson Fire District		<u>29</u>
Due Districts or (Refund Due Sheriff)	\$	<u><u>16</u></u>

NELSON COUNTY  
NOTES TO FINANCIAL STATEMENT

April 21, 2003

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. The Sheriff entered into a written agreement with the depository institution and met requirements (a), (b), and (c) stated above. However, as of December 31, 2002, the collateral and FDIC insurance together did not equal or exceed the amount on deposit, leaving \$93,086 of public funds uninsured and unsecured.

NELSON COUNTY  
 NOTES TO FINANCIAL STATEMENT  
 April 21, 2003  
 (Continued)

Note 2. Deposits (Continued)

The Sheriff's deposits are categorized below to give an indication of the level of risk assumed by the county official as of December 31, 2002.

	<u>Bank Balance</u>
FDIC insured	\$ 100,000
Collateralized with securities held by pledging depository institution in the county official's name	8,217,498
Uncollateralized and uninsured	<u>93,086</u>
Total	<u>\$ 8,410,584</u>

Note 3. Tax Collection Period

The real and personal property tax assessments were levied as of January 1, 2002. Property taxes were billed to finance governmental services for the year ended June 30, 2003. Liens are effective when the tax bills become delinquent. The collection period for these assessments was December 9, 2002 through April 21, 2003.

Note 4. Interest Income

The Nelson County Sheriff earned \$3,680 as interest income on 2002 taxes. As of July 29, 2003, the Sheriff owed \$223 in interest to the school district and \$138 in interest to his fee account.

Note 5. Sheriff's 10% Add-On Fees

The Nelson County Sheriff collected \$42,332 of 10% add-on fees allowed by KRS 134.430(3). This amount will be used to operate the Sheriff's office. As of July 29, 2003, the Sheriff owed \$42,332 in 10% add-on fees to his fee account.

Note 6. Advertising Costs And Fees

The Nelson County Sheriff collected \$776 of advertising costs and \$4,321 of advertising fees allowed by KRS 424.330(1) and KRS 134.440(2). The Sheriff distributed the advertising costs to the county as required by statute, and the advertising fees will be used to operate the Sheriff's office. As of July 29, 2003, the Sheriff was due a refund of \$120 in advertising costs from the county and owed \$4,321 in advertising fees to his fee account.

NELSON COUNTY  
NOTES TO FINANCIAL STATEMENT  
April 21, 2003  
(Continued)

Note 7. Unrefundable Duplicate Payments And Unexplained Receipts Should Be Escrowed

The Sheriff should deposit any unrefundable duplicate payments and unexplained receipts in an interest-bearing account. According to KRS 393.110, the Sheriff should properly report annually to the Treasury Department any unclaimed moneys. After seven years, if the funds have not been claimed, the funds should be submitted to the Kentucky State Treasurer. For the 2002 taxes, the Sheriff had \$2,818 in unrefundable duplicate payments and unexplained receipts.

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COMMENT AND RECOMMENDATION





NELSON COUNTY  
MIKE NEWTON, COUNTY SHERIFF  
COMMENT AND RECOMMENDATION

April 21, 2003

The Sheriff Should Have Required Depository Institutions To Pledge Or Provide Additional Collateral Of \$93,086 To Protect Deposits

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On December 31, 2002, \$93,086 of the Sheriff's deposits of public funds in depository institutions were uninsured and unsecured. According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with Federal Deposit Insurance Corporation insurance, equals or exceeds the amount of public funds on deposit at all times. We recommend that the Sheriff require the depository institution to pledge or provide collateral in an amount sufficient to secure deposits of public funds at all times.

*Sheriff's Response:*

*I have talked to the bank and was told this problem was taken care of at that time. However, I will talk to the bank once again to try and rectify this problem.*

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REPORT ON COMPLIANCE  
AND ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS





**EDWARD B. HATCHETT, JR.**  
**AUDITOR OF PUBLIC ACCOUNTS**

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Members of the Nelson County Fiscal Court

**Report On Compliance And On Internal Control  
Over Financial Reporting Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards**

We have audited the Nelson County Sheriff's Settlement - 2002 Taxes as of April 21, 2003, and have issued our report thereon dated July 29, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Nelson County Sheriff's Settlement - 2002 Taxes as of April 21, 2003 is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under Government Auditing Standards and which is described in the accompanying comment and recommendation.

- The Sheriff Should Have Required Depository Institutions To Pledge Or Provide Additional Collateral Of \$93,086 To Protect Deposits

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Nelson County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses.



Report On Compliance And On Internal Control  
Over Financial Reporting Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards  
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified party.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a long horizontal flourish extending to the right.

Edward B. Hatchett, Jr.  
Auditor of Public Accounts

Audit fieldwork completed -  
July 29, 2003

